

## GWCS Alert – In-Line 1Q2020 Earnings But Maintain Cautious Outlook; Mkt. Perform

- **GWCS' net profit declines 15.3% YoY and 25.4% QoQ in 1Q2020, in-line with our estimate** – Gulf Warehousing Co.'s (GWCS) net profit came in at QR50.4mn in 1Q2020, in line with our estimate of QR52.6mn (variation of -4.1%). Top-line came in at QR296.2mn in 1Q2020, which represents a decrease of 2.4% YoY (-3.4% QoQ). EPS amounted to QR0.09 in 1Q2020 as compared to QR0.10 in 1Q2019 and QR0.12 in 4Q2019. Relative to our model, while revenue was moderately better-than-expected, the in-line earnings was on account of lower margins; gross margin dropped from 35.9% in 1Q2019 to 33.3% in 1Q2020 (29.5% in 4Q2019) and our estimate of 34.5%.
- **GWCS has announced several initiatives to help support SMEs facing challenges due to the Coronavirus malaise; financial impact to become more clear in 2Q2020.** The company recently announced a COVID-19 business support bundle for SMEs, offering free customs clearance and transportation services for SMEs importing critical medical supplies over a three-month period. Moreover, GWCS has also announced a three-month rent waiver for retail outlets and 15% rental discounts over 6 months for SME tenants at its Bu Sulba Warehousing Park. We expect the company to benefit from the QR75bn financial incentives package announced by the government but the timing and extent remains unclear.
- **Longer-term, we retain our bullish investment thesis on GWCS but near-term challenges remain.** GWCS has withstood the blockade well with its freight forwarding segment showing significant growth (up 39% in 2019 from 2017); GWCS' logistics business also remains robust driven by contract logistics and increasing occupancy in Bu Sulba. Growth post Bu Sulba (more than 95% occupancy) could decline, but as we had flagged previously, GWCS has started generating substantial FCF and management remains on the hunt for expansion avenues. The recent Al Wukair Logistics Park contract serves as an example of such a growth opportunity. We do note 2020 could be a challenging year given the dual headwinds of oil price weakness and economic softness due to the Coronavirus but we remain optimistic longer-term. **We stay Market Perform on GWCS with a QR5.10 price target.**

### Recommendations

*Based on the range for the upside / downside offered by the 12-month target price of a stock versus the current market price*

**OUTPERFORM** Greater than +20%

**ACCUMULATE** Between +10% to +20%

**MARKET PERFORM** Between -10% to +10%

**REDUCE** Between -10% to -20%

**UNDERPERFORM** Lower than -20%

### Risk Ratings

*Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals*

**R-1** Significantly lower than average

**R-2** Lower than average

**R-3** Medium / In-line with the average

**R-4** Above average

**R-5** Significantly above average

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